

HOUSING

T E N N E S S E E

1st Quarter 2017

Tennessee dashboard 1st quarter 2017

(percent change over the year)

Weekly Unemployment Claims	▼ -35.4%	Total Home Permits*	▼ -12.8%
Total Nonfarm Employment*	▲ +2.2%	Mortgage Tax Collections	▲ +8.7%
Unemployment Rate (percentage points)*	▲ +0.57	Real Estate Transfer Tax Collections	▲ +3.71%
Homeowner Vacancy Rate (percentage points)	▼ -0.20	Home Prices*	▲ +6.3%
Rental Vacancy Rate (percentage points)	▲ +1.20	Mortgages Past Due (percentage points)	▼ -0.52
Single-Family Home Permits*	▲ +22.2%	Foreclosure Rate (percentage points)	▼ -0.05

*seasonally adjusted ▲ positive outcome for economy ▲ negative outcome for economy

Economic Overview

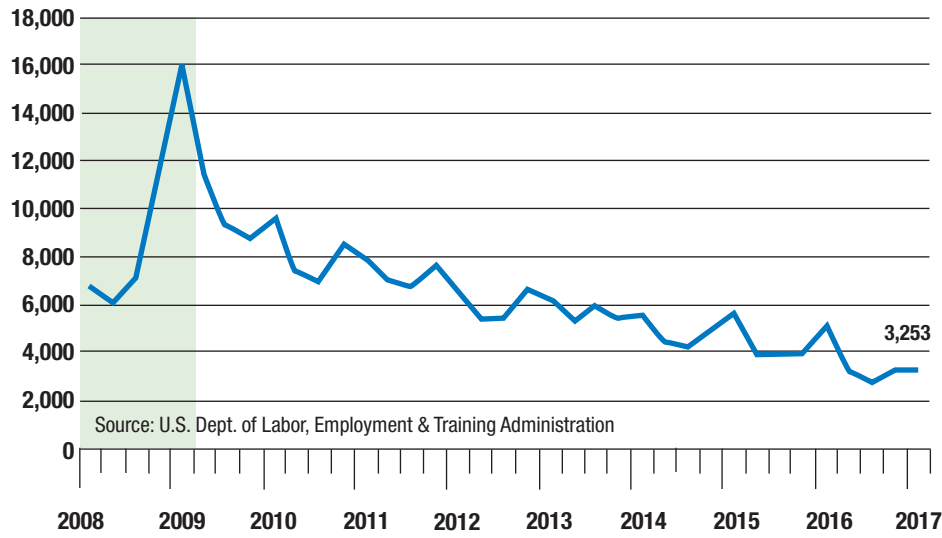
Tennessee's economy improved in nearly every area except the unemployment rate.

Overall, the economic situation in Tennessee is favorable this quarter. Positive points include total nonfarm employment, which rose 0.57 percent, and labor force, up nearly one percent. The labor force grew more than employment, causing a slight uptick in the unemployment rate to 5.27 percent. Initial claims for unemployment rose 1.3 percent.

Compared to the first quarter of 2016, the economy improved in nearly every area except for the slight increase in the unemployment rate, primarily due to more than 2.6 percent growth in the labor force. Total nonfarm employment is up over 2 percent, especially in the goods-producing sectors.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Tennessee initial claims for unemployment insurance rose 1.3 percent for the quarter.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2016.1	2016.2	2016.3	2016.4	2017.1
Employment by industry (nonfarm)					
Total nonfarm	2,944	2,955	2,977	2,991	3,008
Goods-producing sectors	459	461	465	465	473
Manufacturing	340	343	345	344	347
Services-providing sectors	2,485	2,494	2,512	2,526	2,535
Labor force	3,112	3,128	3,151	3,166	3,194
Total employment	2,966	2,983	2,999	3,005	3,026
Unemployed	146	145	153	161	164
Unemployment rate	4.70%	4.63%	4.83%	5.07%	5.27%

Source: Bureau of Labor Statistics

¹ Selected employment indicators from past quarters have been updated to reflect the new 2016 benchmarking by the Bureau of Labor Statistics (www.bls.gov).

Tennessee saw an increase in total nonfarm employment (0.57 percent) and labor force (almost 1 percent).

Vacancy Rates

Vacancy rates in Tennessee this quarter reveal fewer homeowner vacancies and more rental vacancies. Homeowner vacancies are down 0.10 percentage points from the fourth quarter of 2016 and 0.20 percentage points from the first quarter of 2016.

The rental vacancy rate increased 0.60 percentage points. Over the year, the rate is up over 1.20 percentage points to 8.80 percent, the highest since its third quarter 2014 rate of 10.1 percent.

Tennessee homeowner vacancies decreased and rental vacancies increased this quarter.

Tennessee's homeowner vacancy rates are fairly aligned with the United States as a whole. However, the state's rental vacancy rate is 1.80 percentage points higher.

Figure 2. Homeowner vacancy rate

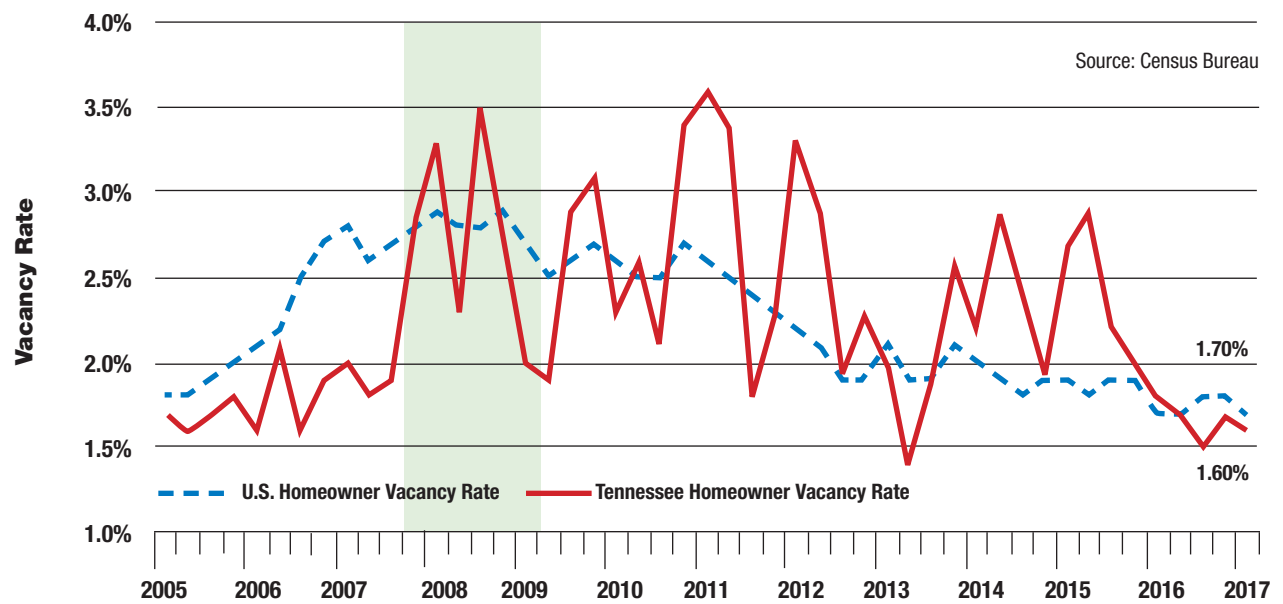
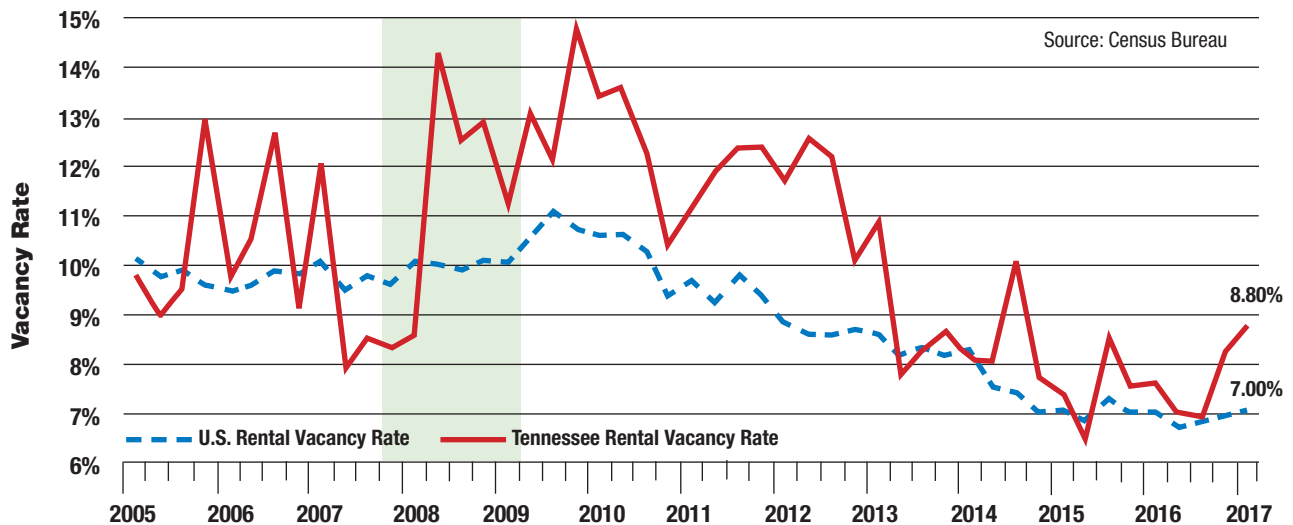


Figure 3. Rental vacancy rate



Housing Construction

The first quarter of 2017 was generally positive for new construction.

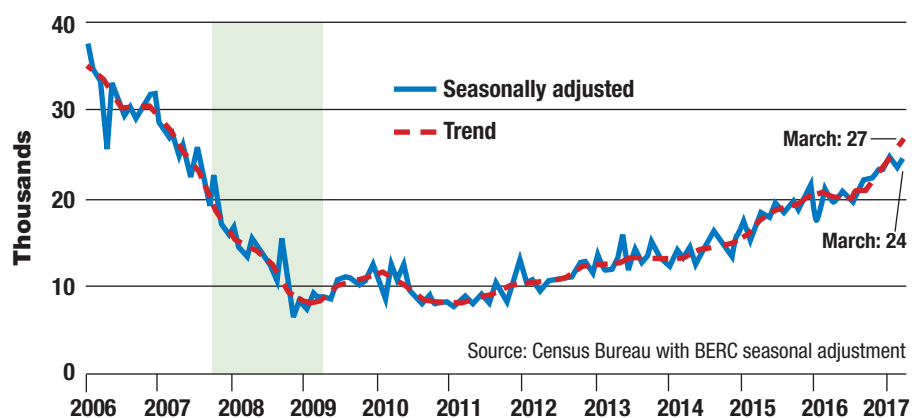
The seasonally adjusted annual rate of construction permits showed generally positive performance compared to the previous quarter. In Tennessee, single-family permits rose 6 percent, and total permits rose less than 1 percent. Over the past few quarters, multi-family permits have shown large fluctuations. This quarter, multi-family permits dropped 25 percent. The first quarter of 2017 was strong for new single-family construction. Over the year, single-family permits are up

22 percent. Multi-family and total permits are down 58 percent and 13 percent, respectively.

The South and the nation showed positive increases in all three areas but especially single-family and total permits, both up 9 percent. Over the year, single-family permits are up 18 percent for the South and 13 percent for the United States. Total permits are up 9 percent for both the South and the nation.

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



The first quarter of 2017 was strong for new single-family construction.

Table 2. Permits issued for privately owned new housing

(thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2014.1	16.3	324.6	600.5	9.5	171.5	395.0	25.6	494.2	975.9
2014.2	16.3	328.7	613.7	7.0	166.5	390.9	23.7	495.1	1,016.7
2014.3	18.4	346.9	637.5	4.2	164.3	402.5	22.9	516.6	1,047.5
2014.4	17.8	351.7	646.4	12.8	179.4	412.7	30.1	526.1	1,050.1
2015.1	20.1	357.8	646.9	7.6	177.2	444.6	27.3	532.8	1,075.1
2015.2	22.9	372.0	677.0	10.6	192.0	569.4	34.0	566.5	1,257.7
2015.3	22.9	378.0	699.1	9.4	181.3	423.1	32.6	562.9	1,129.0
2015.4	23.7	389.5	718.0	16.5	201.7	490.5	39.6	585.5	1,199.1
2016.1	23.4	386.8	729.1	17.5	182.3	434.1	40.9	570.5	1,151.6
2016.2	24.8	399.2	733.6	8.6	175.9	395.4	34.1	580.2	1,145.2
2016.3	25.7	403.1	736.8	9.9	181.3	440.1	35.9	586.3	1,185.1
2016.4	26.9	418.0	793.4	9.6	159.3	439.1	35.6	570.6	1,207.1
2017.1	28.6	454.9	827.3	7.2	166.9	445.2	35.7	620.3	1,251.9
Change from previous quarter	6%	9%	4%	-25%	5%	1%	0%	9%	4%
Change from previous year	22%	18%	13%	-58%	-8%	3%	-13%	9%	9%

Source: Census Bureau

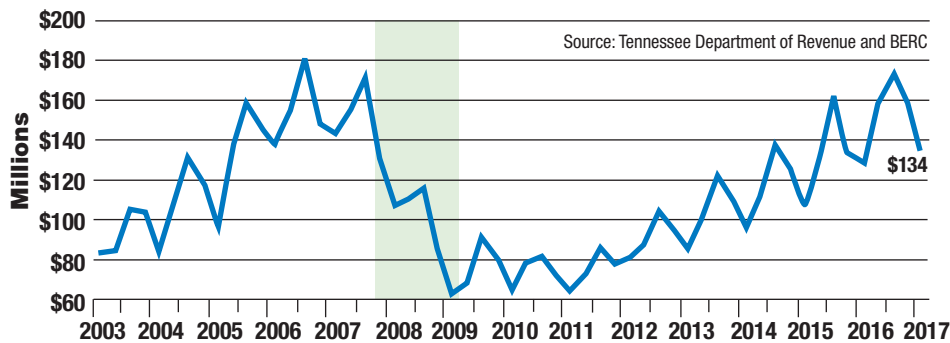
Real Estate Transactions & Mortgages

Overall, tax collections for real estate transfers and mortgages fell this quarter. Mortgage tax collections are down nearly 15 percent to an annual rate of \$61 million. Compared to the first quarter of 2016, the rate is up 9 percent, or \$4.9 million.

Real estate transfer taxes are also down this quarter to \$134 million, a 16 percent decrease from the fourth quarter. Over the year, the annualized rate is up almost 4 percent, or \$4.8 million.

Figure 5. Real estate transfer tax collections

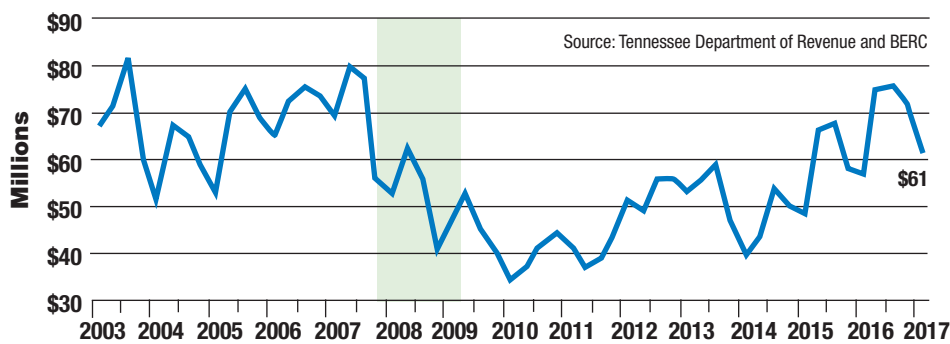
(millions, seasonally adjusted annual rate)



Real estate transfer tax collections fell 16 percent for the quarter but rose 4 percent over the year.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Mortgage tax collections were down 15 percent for the quarter but up 9 percent over the year.

Home Sales

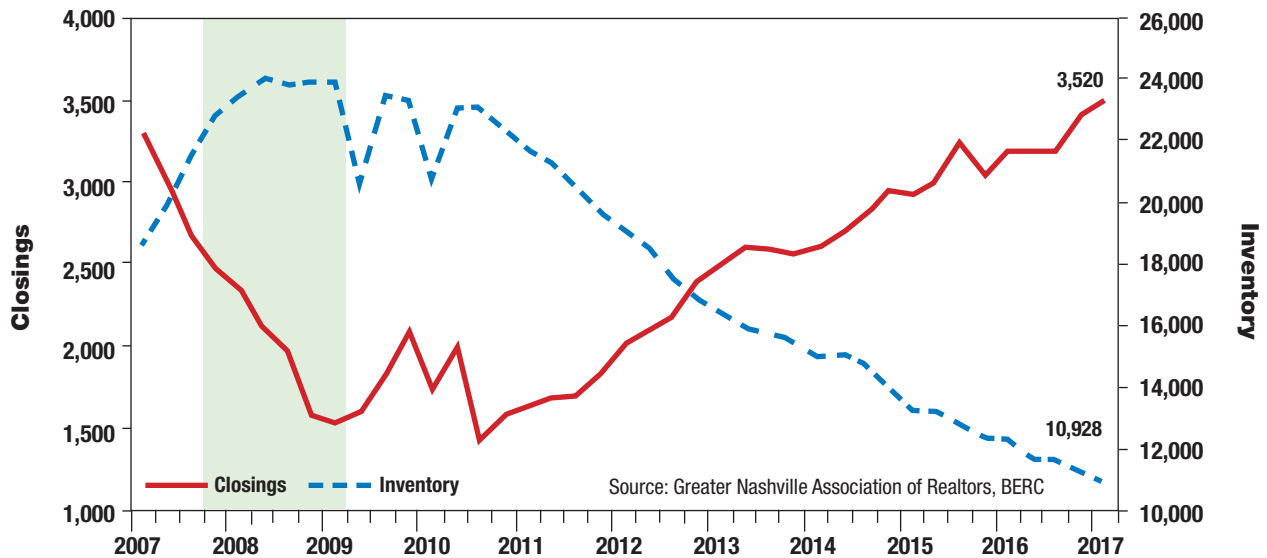
Home closings and inventories this quarter indicate a strong housing market in the geographies tracked by this report. For the past seven years, home inventories have steadily decreased. This quarter, inventories are down in all three areas: 4 percent in Nashville, 5 percent in Knoxville, and 6 percent in Memphis. Over the year, the difference is significant: inventories are down 19 percent in Memphis, 17 percent in Knoxville, and 11 percent in Nashville.

Closing increased in all three areas over the year.

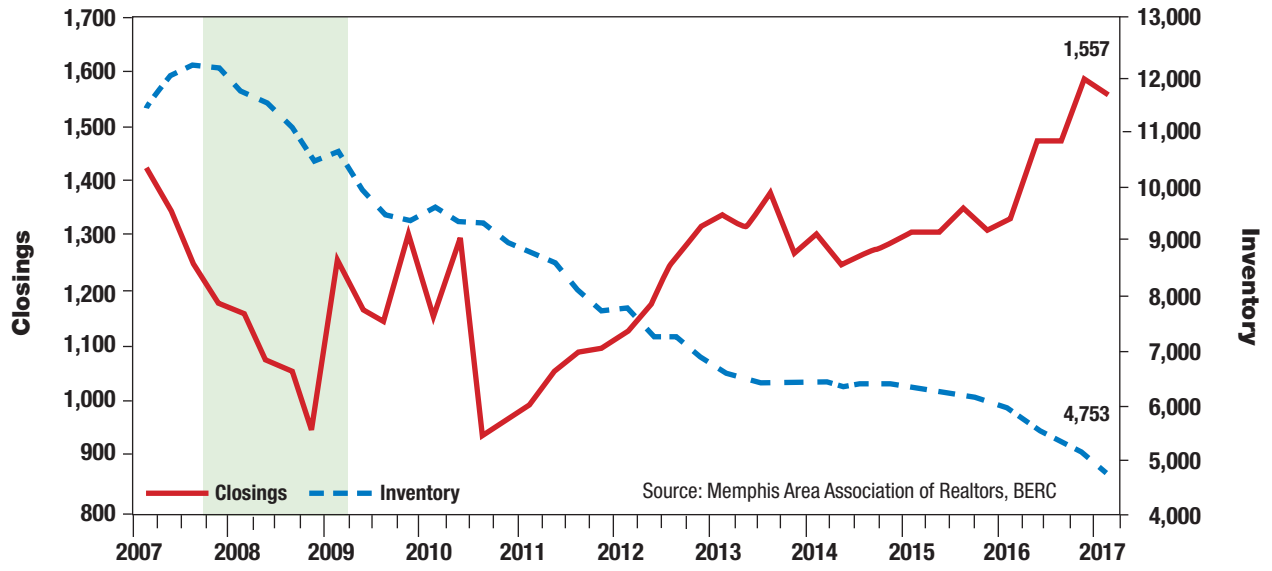
Closings rose in Nashville (3 percent) and Knoxville (2 percent) but fell almost 2 percent in Memphis. Over the year, all three areas have seen double-digit increases in closings: 16 percent in Memphis, 15 percent in Knoxville, and 11 percent in Nashville.

Figure 7. Single-family sales and inventory

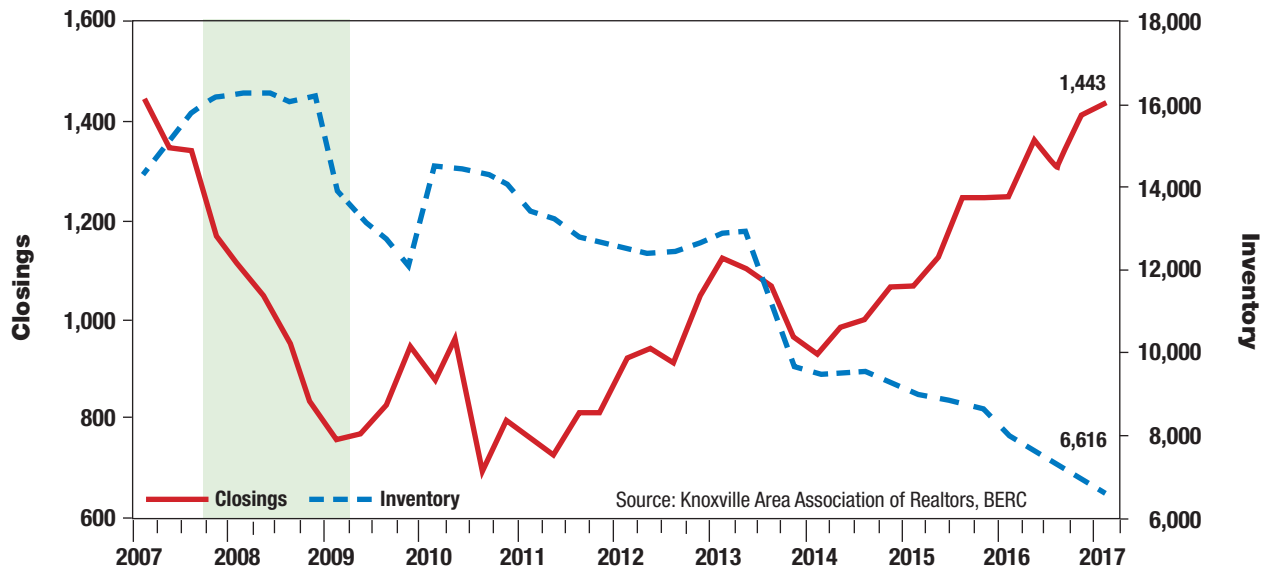
Nashville Area



Memphis Area



Knoxville Area



Home Prices

Nashville area housing prices rose more than 10 percent over the year.

Home prices rose in every area tracked by this report in the first quarter. In particular, housing prices in the Nashville MSA rose more than 10 percent over the year. The Clarksville and Knoxville MSAs increased over 5 percent. The Jackson and Kingsport-Bristol MSAs also gave strong performances this quarter with

over-the-year increases of 2 percentage points from the previous quarter. Following the trend in recent quarters, housing prices in Tennessee are rising higher than in the United States. Compared to the first quarter of 2016, Tennessee's housing prices have risen 6.3 percent, compared to just 5.5 percent for the country.

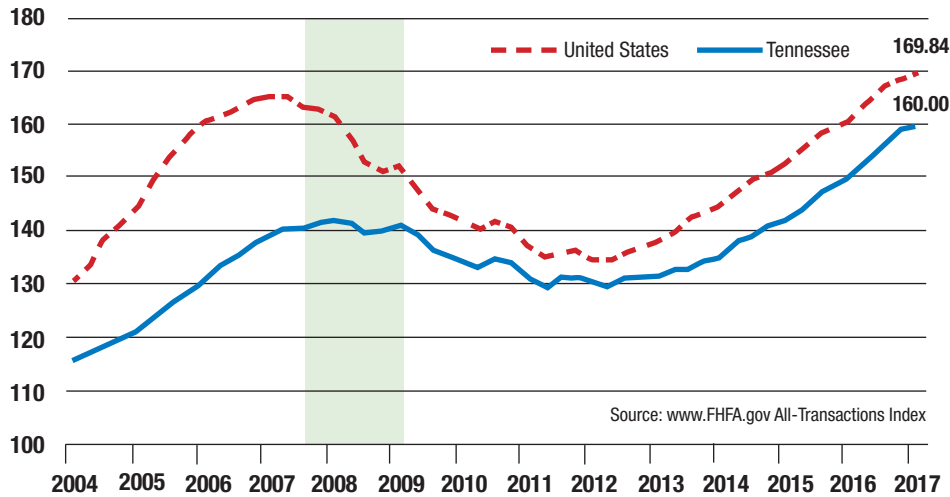
Table 3. Change in housing prices year to year

Area	2015.2–2016.2	2015.3–2016.3	2015.4–2016.4	2016.1–2017.1
Chattanooga MSA	4.2%	3.6%	2.8%	3.3%
Clarksville MSA	5.2%	3.2%	4.0%	5.5%
Cleveland MSA	5.1%	1.8%	3.3%	4.3%
Jackson MSA	5.1%	5.5%	1.9%	3.9%
Johnson City MSA	2.0%	4.5%	2.3%	2.5%
Kingsport-Bristol MSA	1.9%	2.9%	1.7%	3.7%
Knoxville MSA	4.8%	4.2%	5.1%	5.1%
Memphis MSA	3.9%	4.7%	5.2%	4.5%
Morristown MSA	5.1%	6.6%	1.7%	1.5%
Nashville MSA	10.0%	9.3%	10.0%	10.2%
Tennessee	6.7%	6.5%	6.9%	6.3%
United States	5.7%	5.8%	5.7%	5.5%

Source: FHFA All-Transactions Index

Over the year, housing prices rose more than 10 percent in the Nashville area and over 5 percent in the Clarksville and Knoxville MSAs.

Figure 8. Tennessee FHFA house price index (2000 = 100.0)



The range between the rate of increase for the state and the nation is starting to widen.

Mortgage Delinquencies, Foreclosures

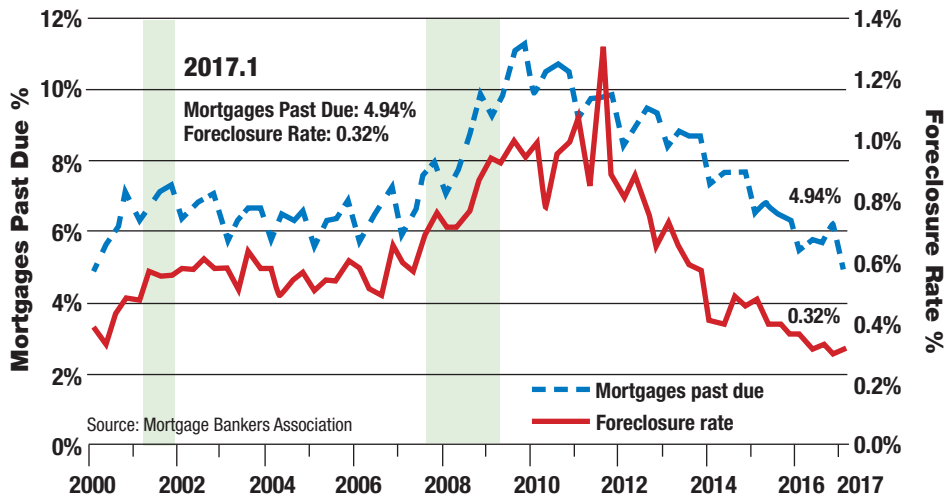
In Tennessee, mortgages past due took a steep drop this quarter, down 1.28 percentage points to 4.94 percent. A rate this low has not been seen since the first quarter of 2000. The foreclosure rate rose slightly by 0.02 percentage points. Foreclosures in the state are aligned with the trend of the nation. However, the percent of mortgages past due is quite a bit higher despite the big fall this quarter.

Tennessee mortgages past due took a steep drop this quarter.

Compared to last year, delinquency rates have improved considerably. In the state, mortgages past due are down over half of a percentage point, while foreclosures are down 0.05 percentage points.

Figure 9. Tennessee mortgages past due and foreclosure rate

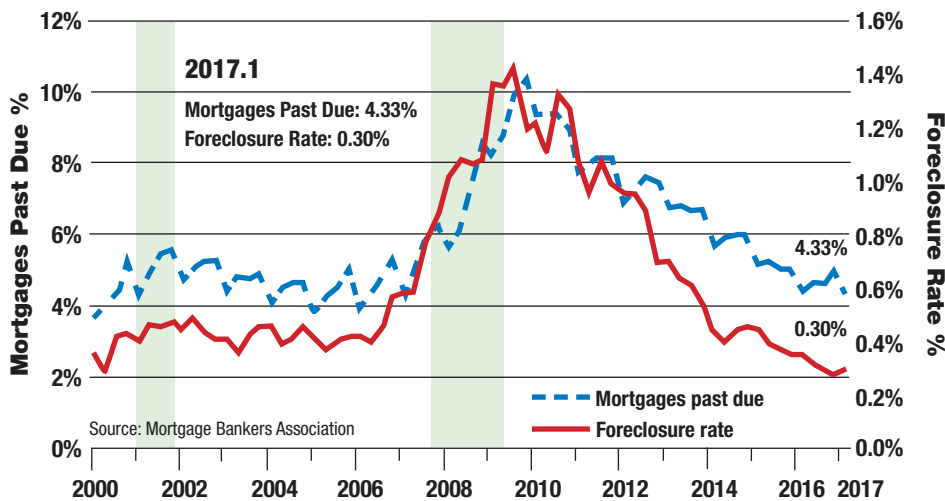
(percent of mortgages in place)



For the quarter, Tennessee mortgages past due are down over half of a percentage point.

Figure 10. United States mortgages past due and foreclosure rate

(percent of mortgages in place)



Foreclosures in the state are aligned with the trend of the nation.

Conclusion

In all, the indicators outlined in this report reveal a housing market that is strong and stable. This quarter, mortgages past due are at a 17-year low, and housing prices are rising in all areas of the state, especially the Nashville MSA.

The state's new construction permits are up, as are closings in two of three major MSAs. In the Knoxville, Memphis, and Nashville MSAs, home inventories have been in secular decline over several quarters. ■

The indicators outlined in this report reveal a strong, stable housing market.



JONES COLLEGE OF BUSINESS
Business and Economic Research Center

Murat Arik, PhD, PDBP, Director

Supported by



Glossary

Home Closings/Inventory.

Number of houses sold/number of houses with active listings. A high number of closings and a low number of inventories would demonstrate a positive step for the economy. (Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, and Knoxville Area Association of Realtors)

Homeowner/Rental Vacancy Rate.

Number of vacant units divided by total number of units. A high vacancy rate indicates poor market conditions, a low one strong market conditions. (Source: Census Bureau)

Labor Force.

All persons employed and unemployed but actively looking for a job. Net changes in number of people employed and unemployed are important gauges of the health of the U.S. job market. (Source: Bureau of Labor Statistics)

Mortgage/Real Estate Transfer Tax Collections.

Amount of taxes collected for realty transfers and mortgages, which together account for a large portion of privilege taxes. (Source: Tennessee Department of Revenue)

Mortgages Past Due and Foreclosures Started.

Percentage of mortgages past due and percentage of new foreclosures started, indicating individuals in financial distress. (Source: Mortgage Bankers Association)

Single/Multi-Family Home Permits.

Level of new single- and multi-family housing construction. Housing permits can be early indicators of housing market activity. New residential housing construction generally leads to other types of economic production. (Source: Census Bureau)

Total Nonfarm Employment.

Total number of paid U.S. workers of any business, excluding government, farm, nonprofit, and private household employees; one of the key economic statistics used to analyze whether the economy is expanding or contracting. (Source: Bureau of Labor Statistics)

Unemployment Insurance Claims.

Weekly average layoff figures. The smaller the number, the better the economy is performing. (Source: U.S. Department of Labor)

Unemployment Rate.

Percentage of unemployed individuals divided by the labor force, a determinant of future conditions, used to determine overall economic health. (Source: Bureau of Labor Statistics)